

FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

D.T.E. 02- __

DIRECT TESTIMONY OF TODD M. BOHAN

PERFORMANCE BASED REGULATION PLANS

FOR THE GAS AND ELECTRIC DIVISIONS

April 16, 2002

Massachusetts Department of Telecommunications and Energy

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1 **I. INTRODUCTION**

2

3 Q. Please state your name, your position, and business address.

4 A. My name is Todd M. Bohan. My business address is 6 Liberty Lane West, Hampton,
5 New Hampshire.

6

7 Q. By whom are you employed and in what position?

8 A. I am employed by Unitil Service Corp. ("USC") as a Project Leader in the Regulatory
9 Services Department. USC provides various professional services, including financial,
10 regulatory, management, engineering and administrative services to the Unitil
11 Corporation utility subsidiaries, including Fitchburg Gas and Electric Light Company
12 ("FG&E").

13

14 Q. What are your responsibilities as a Project Leader in the Regulatory Services
15 Department?

16 A. I have been the project leader on FG&E's filings regarding Service Quality and
17 Performance-Based Regulation ("PBR"). My other duties include providing
18 investigative and analytical support on a broad range of regulatory initiatives and rate-

1 related activities. In addition, I am responsible for performing and directing the
2 evaluation of individual customer inquiries related to pricing matters.
3

4 Q. How long have you been employed by USC?

5 A. I have been employed by USC since November 1998. Before my current position, I
6 was a Regulatory Analyst with USC, providing regulatory assistance to each of the
7 Unitil utility subsidiaries.
8

9 Q. Please describe your educational background.

10 A. I graduated *magna cum laude* from Saint Anselm College, Manchester, New
11 Hampshire in 1987 with a Bachelors in Financial Economics. I earned a Masters in
12 Economics from Clark University, Worcester, Massachusetts in May 1990. In
13 September 1995, I earned a Ph.D. in Economics from Clark University. In addition to
14 my formal education, I have attended various industry seminars and courses, including
15 the Edison Electric Institute Power System Planning & Operations School, the National
16 Association of Regulatory Utility Commissioners Annual Regulatory Studies Program,
17 and the Infocast Performance-Based Ratemaking Conference.
18

1 Q. Dr. Bohan, were you involved with the regulation of gas or electric utilities before joining
2 USC?

3 A. Yes, I was.
4

5 Q. Please explain.

6 A. Before joining USC, I worked for Bay State Gas Company as a Rate Analyst,
7 developing Cost of Gas Adjustment filings for the Bay State subsidiary, Northern
8 Utilities, Inc. Prior to working for Bay State Gas Company, I was employed as a Utility
9 Analyst and an Economist in the Economics Department of the New Hampshire Public
10 Utilities Commission (“NHPUC”). As part of the NHPUC staff, I was responsible for
11 advising the NHPUC on economic and technical issues related to a broad range of
12 regulatory, economic and financial matters in the gas and electric industries.
13

14 Q. Do you have any other experience relevant to your testimony today?

15 A. Yes. Since 1992, I have served on the adjunct faculties, teaching economics, at the
16 University of New Hampshire at Manchester and at Southern New Hampshire
17 University. In addition, I have instructed economics courses at other colleges and
18 universities around New England over the past 10 years.
19

1 Q. Have you previously testified before the Department of Telecommunications and Energy
2 ("Department") or any other state or federal regulatory agency?

3 A. I have not testified before the Department. However as part of the NHPUC staff, I
4 testified before the NHPUC on a number of regulatory issues.

5

6 **II. PURPOSE OF TESTIMONY**

7

8 Q. What is the purpose of your testimony?

9 A. The purpose of my testimony is to introduce FG&E's Gas and Electric PBR Plans.
10 FG&E has prepared separate PBR Plans for its Gas and Electric Divisions. In
11 providing this introduction, I will also provide the background on the development of
12 FG&E's PBR Plans and introduce FG&E's consultant who was retained by FG&E to
13 assist with the development of the PBR Plans. I will also summarize FG&E Gas and
14 Electric Service Quality Plans ("SQPs") filed in D.T.E. 99-84, which are an integral
15 component of the PBR Plans. The SQP's are filed as Appendix A to the PBR Plans.

16

17 **III. BACKGROUND**

18

1 Q. Would you describe the process FG&E has undertaken in developing its Gas and
2 Electric PBR Plans?

3 A. Yes. In the summer of 1999, FG&E embarked on the development of a PBR Plan for
4 its Gas Division , but was subsequently informed by the Department that FG&E should
5 refrain from filing its plan. The Department then opened D.T.E. 99-84, its generic
6 inquiry into service quality for gas and electric utilities.

7
8 From late 1999 through 2001, FG&E was an active participant in D.T.E. 99-84 either
9 independently or through its participation in a joint-utility effort. In the summer of 2001,
10 the Department issued its Final Order in D.T.E. 99-84. As a result, FG&E reinitiated
11 and refocused its efforts to develop a PBR Plan for its Gas Division .

12
13 In developing the Gas PBR Plan, FG&E recognized that there are many benefits
14 associated with operating under a PBR framework for both its gas and electric
15 operations. In addition, FG&E intended to file a rate case for its gas divisions to
16 establish the PBR cast-off rates necessary to initiate its PBR Plans. With these rate
17 filings, and the expected adjustments to base rates, FG&E will now implement a PBR
18 mechanism for both its gas and electric operations consistent with Department policy.
19 Accordingly, FG&E commenced the development of a PBR Plan for its Electric

1 Division as well.

2

3 Q. Has FG&E worked with others in developing its Gas and Electric PBR Plans?

4 A. Yes. FG&E worked with Russell A. Feingold, Managing Director of Navigant
5 Consulting Inc. ("NCI"), during the last several months to develop its Gas and Electric
6 PBR Plans.

7

8 Q. Is NCI providing expert testimony in support of FG&E's Gas and Electric PBR Plans?

9 A. Yes. Mr. Feingold is providing expert testimony in support of FG&E's Gas and
10 Electric PBR Plans. Mr. Feingold directs NCI's Regulation and Litigation Support
11 Practice Group.

12

13 Q. Would you please describe the relationship between FG&E and NCI?

14 A. Yes. FG&E has worked with Mr. Feingold to provide expertise regarding PBR and its
15 impact on FG&E's Gas and Electric Division operations. The Department's current
16 precedent regarding PBR was reviewed and incorporated, as appropriate, in the
17 development of both the Gas and Electric PBR Plans.

18

19 Q. Please explain the context and policy of FG&E's Gas PBR Filing.

1 A. A number of Department orders brought about this filing. First, the Department's Order
2 in D.T.E. 98-51, FG&E's last base rate proceeding for its Gas Division, directed
3 FG&E to file a PBR Plan. While that filing was postponed by the Department's Notice
4 of Inquiry initiating D.T.E. 99-84, the Order in D.T.E. 99-84 reactivated the clock to
5 start running on the filing of a Gas PBR Plan. Subsequently, FG&E proposed a
6 schedule to the Department, that the Department approved, which provided for the
7 filing of a Gas PBR Plan by April 15, 2002.

8

9 Q. Will FG&E file base rate cases to establish cast-off rates for the Gas and Electric PBR
10 Plans?

11 A. Yes. FG&E is filing today a Notice of Intent to File Rate Schedules by May 17, 2002
12 for its Gas and Electric Divisions that will establish appropriate cast-off rates for the Gas
13 and Electric PBR Plans.

14

15 Q. What are some of the benefits of filing FG&E Gas and Electric PBR Plans
16 simultaneously to be followed shortly by simultaneous base rate case filings?

17 A. FG&E believes that it is administratively efficient to undertake these efforts
18 simultaneously. Filing at this time allows the Department to undertake an important and
19 necessary snapshot rate review of both operating divisions at once. It permits the same

1 use of test year material, and perhaps a correlating reduction in paperwork and
2 discovery, review and administration of similar or same facts. Rates reflecting the
3 Department's final order will be processed at the same time and customers (especially
4 those receiving service from both divisions) can be advised as to the rate changes once,
5 reducing confusion. The PBR Plans will commence at the same time, affording, where
6 there is commonality of measurement, a reduction in time spent educating FG&E
7 customers and company personnel on the effects of PBR. Therefore, we believe there
8 are benefits to our customers and FG&E for undertaking these tasks at the same time.
9

10 **IV. PBR PLANS**

11
12 Q. Please introduce FG&E's Gas and Electric PBR Plans.

13 A. FG&E's Gas and Electric PBR Plans are separate stand-alone documents. Mr.
14 Feingold's testimony supports and describes the details of FG&E's Gas and Electric
15 PBR Plans. In brief, the Gas and Electric PBR Plans include a Price Cap mechanism
16 ("Price Cap"). The Price Cap allows for an annual adjustment to FG&E's base rates by
17 a factor that reflects price inflation reduced by a productivity offset, and adjusted for an
18 exogenous factor and a service quality revenue penalty factor.
19

1 Q. What is the duration of the PBR Plans?

2 A. FG&E's proposes ten-year terms for both its Gas and Electric PBR Plans.

3

4 Q. How are rate adjustments proposed to be implemented under the Gas and Electric PBR
5 Plans?

6 A. The ten-year term is set out with the following milestones: (1) a review of each PBR
7 Plan at the halfway mark; (2) an initial period of 19 months with no Price Cap
8 adjustment until July 1, 2004; and, (3) annual PBR Filings on May 1st of each year with
9 the 1st Annual PBR Filings to be made on May 1, 2004.

10

11 Q. Are FG&E's Gas and Electric PBR Plans filed in accordance with the Department's
12 directives?

13 A. Yes. The Department has encouraged gas and electric distribution companies to file
14 PBR Plans. See, for example, D.T.E. 96-100, Electric Industry Restructuring; D.P.U.
15 94-158, Incentive Ratemaking; and, D.T.E. 99-84. FG&E's Gas PBR Plan, in
16 particular, is made in compliance with directives in D.T.E. 98-51 and D.T.E. 99-84. In
17 addition, FG&E Gas and Electric SQPs were filed in accordance with the Department's
18 directives in D.T.E. 99-84. These SQPs are an integral component of the PBR Plans.

19

1 **V. SERVICE QUALITY PLANS**

2

3 Q. When did FG&E file its Gas and Electric Service Quality Plans?

4 A. FG&E filed SQPs for its Gas and Electric Division operations in October, 2001.

5 FG&E's Gas Division SQP is still pending Department approval. However, FG&E's

6 Electric Division SQP was approved by the Department on December 5, 2001.

7

8 Q. Did FG&E file the Annual Service Quality Reports required by D.T.E. 99-84?

9 A. Yes it did, on March 15, 2002.

10

11 Q. Is Service Quality Performance an integral part of a PBR Plan?

12 A. Yes. As described in Mr. Feingold's Testimony, the SQP is a vital sub-component of

13 any PBR Plan. The SQP ensures that service quality is maintained as a utility attempts

14 to drive efficiencies in its operations when regulated under a PBR framework.

15

16 Q. Would penalties associated with Service Quality Performance be appropriately applied

17 to a company operating under traditional cost-of-service ratemaking?

18 A. No. Penalties associated with Service Quality Performance should only be applied

19 once a company is operating under a PBR Plan. The Department's authority permits it

1 to exact penalties for low Service Quality Performance as part of PBR. This
2 appropriately balances the interests of shareholders and ratepayers.
3

4 Q. Please describe FG&E's Service Quality measures with respect to its Gas Division
5 operations.

6 A. Based on the Gas SQP as filed, there are seven areas of service quality performance
7 subject to potential penalties once a Gas PBR Plan and SQP are in place: (1)
8 Response to Odor Calls, (2) Lost Work-Time Accident Rate, (3) Telephone Service
9 Factor, (4) Service Appointments Met As Scheduled, (5) On-Cycle Meter Readings,
10 (6) Consumer Division Cases and (7) Billing Adjustments. There are other service
11 quality reporting requirements that are not subject to revenue penalties. These reporting
12 requirements are described and discussed in FG&E's Gas SQP, and include: Consumer
13 Surveys, Staffing Level Benchmarks, Unaccounted for Gas, Restricted Work Day Rate,
14 Damage to FG&E Property, Capital Expenditure Information, Spare Component and
15 Acquisition Inventory Policy and Practice, and Other Safety Performance Measures.
16

17 Q. Would you summarize FG&E's Service Quality Performance for its Gas Division for
18 2001?

1 A. Yes. FG&E's Gas Division either met or exceeded the benchmark, as filed, for each of
2 the seven categories of service quality performance.

3

4 Q. Please describe FG&E's Service Quality measures with respect to its Electric Division
5 operations.

6 A. Based on the Electric SQP as filed, there are eight areas of service quality performance
7 subject to potential penalties once an Electric PBR Plan and SQP are in place: (1)
8 System Average Interruption Duration Index (SAIDI), (2) System Average
9 Interruption Frequency Index (SAIFI), (3) Lost Work-Time Accident Rate, (4)
10 Telephone Service Factor, (5) Service Appointments Met As Scheduled, (6) On-
11 Cycle Meter Readings, (7) Consumer Division Cases, and (8) Billing Adjustments.
12 There are other service quality reporting requirements that are not subject to revenue
13 penalties. These reporting requirements are described in FG&E's Electric SQP, and
14 include: Consumer Surveys, Staffing Level Benchmarks, Line Losses, Restricted
15 Work-Day Rate, Damage to FG&E Property, Annual Major Outage Events, Capital
16 Expenditure Information, Spare Component and Acquisition Inventory Policy and
17 Practice, Poor Performing Circuits, Electric Service Outages, and Other Safety
18 Performance Measures.

19

1 Q. Would you summarize FG&E's Service Quality Performance for its Electric Division for
2 2001?

3 A. FG&E's Electric Division either met or exceeded the benchmark, as filed, for each of
4 the eight categories of service quality performance.

5

6 Q. Does this conclude your testimony?

7 A. Yes, it does.